

Foresight: The CPA Podcast

Season 3 Episode 5: Now is the time for CPAs to become ESG-literate

Neil Morrison: Welcome to Foresight: The CPA Podcast. I'm Neil Morrison. On our last episode, Armand Capisciolto encouraged CPAs to let go of the abstract debates about whether or not accountants should be focused on sustainability. It's not that he didn't care about these issues, he just thinks they're beside the point. The fact is, investors and clients increasingly want this kind of information. And as Armand sees it, providing clients with reliable information is what CPAs have always done. So Armand was not really a cheerleader for sustainability, he was more of an advocate for the traditional skillset of CPAs as they applied to issues like climate change.

Now, if you want to meet a champion for adding sustainability to the CPA practice, let me introduce you to Roopa Davé. Roopa is a partner in KPMG's Sustainability Services Practice, and she thinks issues like climate change can bring a larger sense of meaning to the work of CPAs.

Roopa Davé: I think the thing that is very exciting for me is the potential for CPAs to impact topics like climate change that are big and global and have major impacts on society, So really, that ability to add purpose to our day-to-day work.

Neil Morrison: Roopa's enthusiasm reminded me of an article written in 2013, so nearly 10 years ago. It was titled *Accountants Will Save the World*. The article was written by Peter Bakker and it was published in the Harvard Business Review.

Roopa Davé: I love that article, and I love that title, but I always like to caveat that accountants will be part of saving the world. I don't think we're going to save the world on our own, so the title might be a little bit misleading, but the skillsets and the abilities of the CPA and of accountants, coupled with others, who are very important to the fight against climate change, will be a key member and leader in coming up with those solutions.

Neil Morrison: Talk to me a bit more about that. What is the CPA-part of that?

Roopa Davé: So there's a few kind of key aspects that I think of when I think of what's needed to get to climate solutions. And the first piece, which shouldn't actually really be a surprise, is around data. So we need good information and good data to understand, first of all, where we are, and then actually understand how our initiatives and what we're doing and how that's changing. And accountants have that skillset to understand data processes, the reporting of the information, the



calculation of the information. You know, I like to say that a ton of CO2 is just, it's another widget or another dollar unit. And so we're very good at numbers and climate change data is all numbers, so there's that kind of reporting and data collection and calculation piece as sort of the first step.

The second piece is the analysis that's needed around it. There's a really big economic impact of climate change, and we need financial analysis skillsets to be coupled with climate analysis skillsets to understand the impact of the opportunities that we have to analyze where our highest and best uses, our biggest impact opportunities are. So there's a majority of places in this climate fight that accountants are needed, and it's really with our current skillset. It's not even really learning a new skillset, it's using our current one on this problem.

Neil Morrison: So you are a CPA, but you were not trained in sustainability. So I want you to take me back to when sustainability first entered your world. What happened?

Roopa Davé: So it was early days. I've been in this space for over a decade now. I always wanted to use my education and my designation in a way that I personally felt added value and purpose in society, and so tried my hand in the nonprofit space. And let's say just over a decade ago, the corporate world started to make some moves in what we were calling corporate social responsibility. So for me, I thought this might be a really nice combination of skillset with corporate background, accounting, and this concept of corporate social responsibility. For me, the foot in the door was my background in audit. Our clients at KPMG, some of our bigger clients started asking, "Hey, you audit our financial statements. Is it possible for you to also do the same thing on our sustainability statements or our sustainability information?" And having been trained as an auditor, that was really my initial foot in the door with no training or background in sustainability.

I was able to learn through various audit jobs, which is a fantastic space for learning. You learn all about the content, the data, as well as really what the subject matter is that you're looking at. So that was really my first step in. and it grew from there.

Neil Morrison: So they were wanting you to audit sort of the sustainability information that they had, or what was it that they were looking for you to audit?

Roopa Davé: So some of our bigger clients were putting out what they were calling Corporate Social Responsibility Reports, and they would report anything from HR metrics, diversity metrics, or turnover metrics, through to environmental metrics, or water use, or climate change metrics, and even metrics that are specific to specific industries, so operational metrics that might be relevant in certain industries. And they would put this information out there as a demonstration of their corporate social responsibility and strategy. And because some of this information was being used by different stakeholders, they wanted to demonstrate the importance of that to different



individuals, whether that's customers or employees who were looking at their Corporate Social Responsibility Reports through obtaining external assurance. So it was early days. There was very few companies in Canada doing this, just a handful, but some of the leaders were seeking that service.

Neil Morrison: As you mentioned, you didn't have training in this. Coming from doing financial audits to doing this sort of thing, how was it different or the same?

Roopa Davé: Yeah, that's a good question. I was really well-supported by KPMG, so they very much invested in me in my training, as well as colleagues who actually went abroad and were trained on this work in other jurisdictions where they were doing this work for longer and were able to come back and coach and mentor individuals like myself who were entering this space without the experience. And then a lot of it was on-the-job training, a lot of self-teaching, and a lot of taking courses on the side to make sure you understood the information. To be totally honest, audit work is a really fantastic learning ground because you're given a puzzle that you need to learn how it was created, and so you're given the time and space to understand that information, and it's a really fantastic way to really learn how it comes together and what it means.

Neil Morrison: You mentioned it wasn't all that common back then, when you first started this. How common is it now that companies are looking for this kind of oversight?

Roopa Davé: Well, it's a lot more common now than it was a decade ago. In terms of sustainability services, or ESG, that has grown tenfold from a decade ago, and it's shifted incredibly. When I got into the space, the work was fairly narrow around assurance services. And now, the amount of assurance services I do are much more minimal than the broader advisory services. The demand has grown. This has become top-of-mind in the last, let's say, two years really since COVID. It's really accelerated it. And assurance services though, however, so that's just me, but assurance services are growing incredibly quickly as all of our clients are now starting to look towards their audit providers to help them with that.

Neil Morrison: What's driving that growth in demand, do you think?

Roopa Davé: Well, and it depends on what you're speaking to because there are so many different types of services that we provide in the ESG space. So if I speak to the reporting and the assurance side, a major driver of that is the investor community and the regulators of publicly traded companies who are now actually beginning to regulate the information and, in certain cases, require assurance. So that has taken the conversation from talking about your sustainability report and potentially getting audited with a small sustainability team and elevated it to the point of the CFO, so it is very much top-of-mind in the finance function and with the CFO particularly for



publicly traded companies. Now, on the other front, when we talk about our advisory services around, say, the development of an ESG strategy or a decarbonization plan or understanding your climate risks, there's a lot of different drivers for it. And I would say it depends on the industry, depends on the company.

By and large, it's a varying number of stakeholders. So it could be an investor community that's driving you. It could be the consumers if you're a retail company. And a number of cases if you supply to large industrials, it is also your consumers that are asking for some sort of information or strategy around this information. So it's varies across industries, it varies in terms of maturity, and it varies in terms of demand.

Neil Morrison: In a talk you gave, you spoke about the value chain, which was a new term to me. I'm used to hearing about the supply chain, but what is the value chain?

Roopa Davé: It's a really important concept in sustainability, and I appreciate you asking the question and actually making that distinction between the supply chain. The supply chain is part of the value chain. And the way we think about the value chain is really the full upstream and downstream circle, or value chain, of your business and the business being smack in the middle of where you're getting goods from, so that of course would be your supply chain. And let's take an example of a manufacturing company. You take in raw materials, you create something, and you sell it downstream. So where that information or where that, I should say, where those goods go is the full value chain. And it's really important when you are considering ESG or sustainability topics to understand that the impact of those topics might be really different at different points in the value chain.

So a very easy example, for example, to understand is in the apparel industry, we all know that human rights and labor rights and social impacts are incredibly important, but where those sit in the value chain is really important. They're upstream in the supply chain, in the supplier base, and so how a company goes about managing that is quite different than a topic that's actually sitting really within their own set of operations in their own set of control, or whether it's a topic that sits downstream in, let's say, the end use of your product. So there are varying topics that sit in various parts of your value chain. And in a number of companies, their most material ESG topics actually sit outside of the control in their operations and sit in their value chain, so that brings a level of complexity to sustainability that we don't deal with in other aspects of the business.

Neil Morrison: Is there a concrete example that you're able to provide just to help flesh that out?

Roopa Davé: Well, so other examples might be financial services. So if we take a bank and we think about something like their water use or their climate impact. And you take the bank's



operations. They've got a number of buildings with some climate impact and some water use, and it's by and large not a material impact when we compare a bank to say a extractive company. However, the bank is lending its funds to those companies, to an extractive company that may have a large impact. And so in terms of a bank where it's most material sustainability topics sit, it would actually be in its book of business or outside of its own operations, but within its value chain, so where its product is actually going.

Neil Morrison: So is the idea here that it's around making sure that you're consistent and that you're coherent, and that what you're saying is real? It's not just greenwashing. That if you say that you really care, you're a bank or something, and you say you really care about sustainability and that's a fundamental value to you as a bank, then you need to show that that's a value throughout the operations and through all the different steps of your business operations. Is that right?

Roopa Davé: Yeah, and I think it's not simply about transparency and describing it, but also where you're spending your time and energy. So I'll go back to that apparel business. If they spend all their time and energy greening a retail space, that's great, but they ignore child labor in their supply chain, they're missing the point. So if you understand that your most material or high-risk sustainability issue is actually outside of your operations, you need to be creating a strategy, initiatives, programs, and policies to manage those topics. And that would actually then demonstrate that you're not greenwashing, but you understand the complexity of the topic and you're managing it despite the fact that it doesn't sit right within your own operations, but it plays a major role in your value chain and the creation of your products and ultimately what you sell.

Neil Morrison: What role can or do CPAs play in monitoring the value chain?

Roopa Davé: Well, that's actually one of the biggest topics we've got right now. And I'll go back to climate because a lot of your business's climate impacts might actually be outside of their direct emissions. So another back to the bank or back to the apparel company, if your emissions are quite small, but the emissions that you lend to are quite high, there's a lot of movement on how to measure that, how to get the data for that, and a lot of that data is aligned with, or has similarities to, financial information. And so this is why we see a number of CPAs getting involved in supporting the data collection of all sustainability data. So whether that's in your own operations or throughout the value chain, but essentially if it's material information, you need the data on it, and you need to monitor how you're doing on it. And at this point, we don't have solutions, so it is use of analytics, understanding what's available, and developing processes and initiatives and strategies and collaborations across industries to come up with it. And again, CPAs are very well placed to have that conversation.



Neil Morrison: I'm thinking of someone who's listening to this, who's a CPA and listening to what you spend your time on. You no longer work on financial statements. And I'm wondering how to phrase this. Do you still feel like a CPA?

Roopa Davé: Absolutely. And hands down, I'd say more so than maybe I did even five years ago.

Neil Morrison: Really?

Roopa Davé: Now that this topic is very clearly understood to have a material financial impact, and it is clearly sitting top-of-mind with CFOs with audit committees and with my other peer CPAs, it is incredibly big part... It's becoming an incredibly big part of the finance's role. And that is as this information moves into disclosure, corporate disclosure and requirements from regulators, it will be corporate reporting that owns it and unlikely to still sit with a sustainability team in sort of the long term. This information will become integrated into annual reports. It will need to be signed off on by CFO and CEO in terms of their comfort of this information. I'm speaking predominantly with, about, public companies here, but this is still relevant for private companies. I think this has become much more relevant as a CPA, and I find that my clients are progressively becoming more and more the CFO every day. So absolutely, I feel like a CPA more and more every day and it's something I'm very proud of.

Neil Morrison: How much demand is there for CPAs who are comfortable, are knowledgeable, have experienced working within this space?

Roopa Davé: I think at this point, it's growing. It's not at a point where I think it's unlimited, but it's growing. And my advice is to get ahead of it. It will absolutely make you a unique and high-demand individual to have that ability to speak finance terminology, but also speak ESG and sustainability. So it is, at least as a firm as KPMG, we see it as the future of the CPA. We expect all our CPAs to be able to work in both financial statement, as well as ESG statement world in the future. So I think all CPAs at some point will have this as part of their world.

Neil Morrison: Yeah, it almost sounds like what you're saying, it's now or never, for CPAs to jump on board with this.

Roopa Davé: Yeah, we think about the digital revolution and needing to be digitally literate and how difficult that was a number of years ago. Thinking about ESG very similarly, we need all of our people in the world of accounting and the world of KPMG to be ESG literate, and that is, I think, something we feel pretty passionately about and would encourage other companies and other CPAs to think similarly.

Neil Morrison: Roopa Davé, thank you so much for chatting with us.



Roopa Davé: Wonderful. Thanks for having me.

Neil Morrison: Roopa Davé is a partner in KPMG's Sustainability Services Practice. And that's it for this episode. We'll be back in two weeks when we will be speaking with Janice Tran. Janice is the CEO and co-founder of Kanin Energy, a Calgary-based energy company that turns excess heat from industrial facilities into clean electricity. Janice says CPAs are going to play an essential role in building the future of sustainable energy.

Janice Tran: CPAs are talented businesspeople, and we need people who understand fundamentals of business, of finance, and to use that as a foundation to grow the next evolution of businesses in the green space. And so I think that outside of just the traditional roles, accountants can really just have creativity on how they want to participate as extending their skills, extending kind of what's out of their comfort zone, but just the more people that we have who are committed to building greener companies and building them on a solid business foundation, the better off we are as is growing this industry.

Neil Morrison: That's Janice Tran, the CEO of Kanin Energy, coming up on our next episode in two weeks. If you like this podcast, please give it five stars in your podcast app, review it, and subscribe or follow it depending on the app that you're using, and please share it. All of this really helps others to discover us. Foresight: The CPA Podcast is produced by CPA Canada. For more information, visit the link in the show notes. And please note, the views expressed by our guests are theirs alone and not necessarily the views of CPA Canada. I'm Neil Morrison. Thanks so much for listening.

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